

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA
DEPARTMENT OF COMMERCE
COLUMBIA, SOUTH CAROLINA**

FINANCIAL STATEMENTS

With

INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2008

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

September 19, 2008

The Honorable Mark Sanford, Governor
and
Mr. Joe E. Taylor, Jr., Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce - Division of Savannah Valley Development for the fiscal year ended June 30, 2008, was issued by Walda Wildman, LLC, Certified Public Accountant, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
FINANCIAL STATEMENTS
Year Ended June 30, 2008**

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WALDA WILDMAN, LLC

CERTIFIED PUBLIC ACCOUNTANT

Synergy Business Park · Congaree Building · 121 Executive Center Drive · Suite 206
Columbia, South Carolina · 29210
Telephone 803.216.9800 · Fax 803.216.9498

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

September 15, 2008

Mr. Richard H. Gilbert, Jr., CPA
Interim State Auditor
Office of the State Auditor
State of South Carolina
Columbia, South Carolina

I have audited the accompanying basic financial statements of the Division of Savannah Valley Development of the South Carolina Department of Commerce (the SVD) as of June 30, 2008, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the SVD's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in note 1 to the financial statements, the financial statements of the SVD are intended to present the financial position, results of operations, and cash flows of only that portion of the funds of the South Carolina Department of Commerce and the State of South Carolina that is attributable to the transactions of the SVD. They do not purport to, and do not, present fairly the financial position of South Carolina Department of Commerce and the State of South Carolina as of June 30, 2008, and the changes in their financial positions and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the SVD as of June 30, 2008, and the results of its operations and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated September 15, 2008 on my consideration of the SVD's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplementary Schedule of Information on Business-Type Activities Required for the Government-Wide Statement of Activities in the State Comprehensive Annual Financial Report is presented for purposes of additional

analysis as required by the Office of the South Carolina Controller General and is not a required part of the basic financial statements of the Savannah Valley Development of the South Carolina Department of Commerce. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The SVD has not presented Management's Discussion and Analysis, which is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

A handwritten signature in dark ink that reads "Walda Wildman LLC". The script is cursive and fluid.

WALDA WILDMAN, LLC
Certified Public Accountant

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
STATEMENT OF NET ASSETS
June 30, 2008**

ASSETS

Current assets:

AR/Related party	
Cash and cash equivalents	\$ 207,747
Total unrestricted current assets	<u>207,747</u>

Restricted current assets:

Cash and cash equivalents	
Escrow for easement remediation	6,250
Note payable debt service and sinking funds	2,916
Total cash and cash equivalents	<u>9,166</u>
Interest receivable	205,221
Total restricted current assets	<u>214,387</u>

Restricted non-current assets:

Notes receivable	9,033,017
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Capital assets

Work-in-progress, net of \$1,250,230 valuation allowance	1
Land, net of \$63,318 valuation allowance	<u>1</u>
Total capital assets	<u>2</u>

Total assets	<u>9,455,153</u>
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LIABILITIES

Current liabilities payable from unrestricted assets:

Accounts payable - related party	42,000
Total current liabilities payable from unrestricted assets	<u>42,000</u>

Current liabilities payable from restricted assets:

Special tax fund escrow liability	
Interest payable - related party	208,137
Total current liabilities payable from restricted assets	<u>208,137</u>

Non-current liabilities payable from restricted assets:

Escrow for easement remediation	6,250
Notes payable - related party	9,033,017
Total non-current liabilities	<u>9,039,267</u>

Total liabilities	<u>9,289,404</u>
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NET ASSETS

Invested in capital assets	2
Unrestricted	165,747
Total net assets	<u>\$ 165,749</u>

The accompanying notes are an integral part of these statements.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the year ended June 30, 2008**

Operating expenses:	
Repairs and maintenance	\$ 64,052
Professional fees	6,924
Total operating expenses	<u>70,976</u>
Operating income (loss)	(70,976)
Non-operating revenues (expenses):	
Interest income on notes receivable	521,592
Interest income from deposits and short-term investments	5,768
Interest expense	<u>(521,592)</u>
Total non-operating revenues (expenses)	<u>5,768</u>
Change in net assets	(65,208)
Net assets, beginning of year as restated	<u>230,957</u>
Net assets, end of year	<u>\$ 165,749</u>

The accompanying notes are an integral part of these statements.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
STATEMENT OF CASH FLOWS
For the year ended June 30, 2008**

Cash flows from operating activities:

Payments to suppliers and customers	\$ (57,596)
Cash received from customers	42,773
Net cash provided (used) by operating activities	<u>(14,823)</u>

Cash flows from non-capital financing activities:

Principal payments on notes payable	(1,255,892)
Interest payments on notes payable	(550,528)
Net cash provided (used) by non-capital financing activities	<u>(1,806,420)</u>

Cash flows from investing activities:

Collection of escrow payments from borrower	1,422,198
Interest received on deposits and short-term investments	22,504
Net cash provided (used) by investing activities	<u>1,444,702</u>

Net cash and cash equivalents increase (decrease) for year (376,541)

Cash and cash equivalents, beginning of year 593,454

Cash and cash equivalents, end of year \$ 216,913

Reconciliation of operating loss to net cash used by operating activities:

Loss from operations	\$ (70,976)
Adjustments to reconcile net cash provided (used) by operating activities:	
Change in assets and liabilities	
Decrease in accounts receivable - related party	8,403
Increase in escrow for easement remediation	5,750
Increase in accounts payable	42,000
Net cash provided (used) by operating activities	<u>\$ (14,823)</u>

Supplemental disclosures:

Interest paid	<u>\$ 550,528</u>
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The accompanying notes are an integral part of these statements.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Division of Savannah Valley Development of the South Carolina Department of Commerce (the SVD), known prior to July 1, 1993 as the Savannah Valley Authority, is a budgetary unit of the State of South Carolina. The SVD was originally established by Section 13-9-10 of the Code of Laws of South Carolina, as amended by Act 456, 1992, to develop and promote the Savannah River basin area of the State. Code Section 13-1-620, item q, which became effective July 1, 1993, requires the SVD to assess charges and assessments for the use of its facilities and services sufficient to provide for payment of all its expenses. As of year end, the SVD serves four functions: (1) it acts as a conduit for a loan between the South Carolina Insurance Reserve Fund (see note 3); (2) it is a lessee to the U. S. Army Corps of Engineers for certain public lands in and around Lake Richard B. Russell, maintaining such lands for public park, and recreational purposes; (3) it holds a portion of leased lands and other fee simple land, and funds related to a residential real estate development in Abbeville County, South Carolina (see notes 5 and 8); and (4) it owns easements to land in McCormick County, South Carolina.

Through the fiscal year ended June 30, 1993, the SVD was governed by a board of directors whose members were appointed by the Governor, with the advice and consent of the Senate. Effective July 1, 1993, as part of the restructuring of South Carolina government, the board was abolished and the Authority became the Division of Savannah Valley Development of the South Carolina Department of Commerce (DOC). The Restructuring Act, as codified in Code Section 13-1-620, provides that the SVD succeeds to all powers and duties of the Authority

The SVD is subject to State laws for State agencies unless specifically exempted. Through the fiscal year ended June 30, 1994, the SVD received an annual appropriation from the State, but has received no annual state appropriation since that time.

Reporting Entity

A financial reporting entity, as defined by GASB Statement No. 14, The Financial Reporting Entity, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. The financial statements of the SVD constitute neither a primary government nor a component unit of a primary government because they present the financial position, results of operations, and cash flows of only that portion of the funds of the South Carolina Department of Commerce and the State of South Carolina that is attributable to the transactions of the Division of Savannah Valley Development of the South Carolina Department of Commerce. The SVD is part of the primary government of the State of South Carolina and its financial statements are included in the Comprehensive Annual Financial Report of the State of South Carolina, which is the primary government.

Basis of Presentation

In compliance with the requirements of GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the SVD’s financial statement presentation provides a comprehensive, entity-wide perspective of the SVD’s net assets, revenues, expenses and changes in net assets and cash flows.

Significant Accounting Policies

Basis of Accounting

For financial reporting purposes, the SVD is considered a division of a department of a government engaged only in a single business-type activity including debt service and capital activity. Accordingly, these financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. That is, revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized

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June 30, 2008**

when an obligation has been incurred. In addition, all assets and liabilities associated with operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are classified as 1) invested in capital assets, 2) restricted, and 3) unrestricted.

The SVD distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing services and /or goods in connection with its principal on-going activity, which is the sale and rental of property used to promote and develop the Savannah River basin. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In accordance with Government Accounting Standards Board statement No. 20, the SVD has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent cash on hand with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's cash management pool, and cash on deposit with commercial banks.

Most State agencies, including the SVD, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The cash management pool, administered by the State Treasurer, includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The SVD records and reports its deposits in the general deposit account at cost. The SVD reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the SVD's special accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the SVD's accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the SVD's percentage ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having maturities of three months or less at the time of acquisition.

For funds not held by the State Treasurer, the SVD considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Interest Income from Deposits and Short-term Investments

Interest income from deposits and short-term investments includes interest earnings received, realized gains and losses, and unrealized gains and losses resulting from the change in fair value of investments in the State's internal cash management pool.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation, using guidelines established by the State of South Carolina. According to these guidelines, all land is capitalized, regardless of cost. Buildings and qualifying improvements thereto and improvements that rest in or on the land itself

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are recorded as depreciable capital assets if their cost exceeds \$100,000. Movable personal property is recorded as a capital asset if its unit value in exceeds \$5,000 and its useful life is in excess of two years. Routine repairs and maintenance are charged to operating expenses in the years in which the expense is incurred. Until they are completed, development projects and real estate held for development are recorded as work in progress. Once completed, they are reclassified to the appropriate capital assets category

Land Development Costs, Development Expenses and Work in Progress

The SVD acts as a regional development agency and may acquire, hold, use, improve, lease or sell any real or personal property. Since costs for the SVD's various development projects are directly identifiable with specific properties, they are capitalized at cost if it is probable that the SVD will acquire the property. If it is not probable that the SVD will acquire the property, costs associated with a project are expensed. Until an asset is completed and placed in service, it is classified as work in progress. Valuation allowances are provided when the net realizable value of property associated with a project is less than the accumulated cost of that project.

Allowance for Losses on Real Estate

Valuation allowances are provided for real estate held for development when the net realizable value of the property is less than its cost. An allowance has been established to reflect the potential net realizable value of an abandoned railroad right-of-way, which the SVD owns.

In 1983, the SVD acquired the right-of-way and fee simple title to five railroad stations totaling approximately 194 acres in McCormick and Abbeville counties. The purchase price was paid from SVD funds and from funds provided by the Federal Railroad Banking Association. Title to the right-of-way is vested in the SVD with the stipulation that the land must be used for public transportation. Should any or all of the right-of-way be sold, seventy percent of the sale proceeds revert to the Federal Railroad Banking Association.

The \$63,319 cost has been reduced by a \$63,318 allowance which reflects the net proceeds the SVD would receive from a sale and the limited use to which the SVD may put this land.

Bad Debt Expense

The SVD uses the allowance method of recognition of losses on loans receivable and other receivables based on identification of loans and receivables expected to be uncollectible.

Restricted Assets

Restricted assets represent monies or other resources, the use of which is restricted by legal or contractual requirements. At June 30, 2008, restricted assets included amounts being held in various cash and cash equivalent accounts to repay the SVD's note payable to the State Insurance Reserve Fund, which were limited by applicable loan covenants.

Classification of Revenues and Expense

The SVD classifies its revenues and expenses as either operating or non-operating. Operating revenues include revenues generated by activities that have the characteristics of exchange transactions and generally result from transactions arising in connection with its principal on-going activity, the development of the Savannah River Basin. Operating revenues include charges and assessments for the use of its facilities and services. Operating expenses result from providing the facilities and services exchanged for the respective revenues.

All revenues and expenses not meeting the definition of operating revenues and expenses are reported as non-operating revenues and expenses. Such transactions generally arise from activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 34, such as state appropriations and

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investment income.

Net Assets

The SVD's net assets are classified as follows:

- *Invested in capital assets:* This represents the SVD's total investment in capital assets, net of any outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets.
- *Restricted net assets:* Restricted expendable net assets include resources in which the SVD is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- *Unrestricted net assets:* Unrestricted net assets represent resources derived from operating revenues and may be used to meet current expenses for any purpose

The SVD's policy for applying expenses that can use both restricted and unrestricted resources is to apply the expense to restricted resources then to unrestricted resources.

Income Taxes

As a division of an agency of the State of South Carolina, the SVD is exempt from income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. DEPOSITS

At June 30, 2008, all deposits of the SVD were held by the South Carolina State Treasurer. Deposits reported in the financial statements total \$216,913. Deposits held by the State Treasurer were the same. Readers should refer to the Comprehensive Annual Financial Report of the State of South Carolina for information pertaining to reported amounts, fair values, and credit risk of the State Treasurer's deposits and investments.

3. NOTES PAYABLE AND RECEIVABLE

In order to facilitate development of Savannah Lakes Village, a residential community in McCormick County, South Carolina, the SVD agreed to borrow up to \$20 million from the State's Insurance Reserve Fund and to lend it to McCormick County to pay for the Village's infrastructure. From 1990 through 2001, when the \$20 million dollar maximum was reached, the SVD annually requested funds from the Insurance Reserve Fund based on the number of new Savannah Lakes Village lots having infrastructure. The SVD in turn loaned the money to McCormick County under terms and conditions identical to those under which it borrowed from the Insurance Reserve Fund. Under terms of the Master Note Agreement, annual borrowings resulted in separate notes. The separate notes were administratively consolidated into a single note by the State Treasurer's Office in fiscal 2005.

The Master Note Agreement and other related documents created a Special Tax (SCRUT Tax) which McCormick County is required to impose on all Savannah Lakes lots/units. The Special Tax was set at \$30 per month per lot/unit for debt service plus \$1 per month administrative fee. In 2005, McCormick County replaced the project's developer as the servicing agent, and in fiscal 2006, the County began including the \$372 annual amount of the SCRUT Tax on real property tax bills sent to owners of applicable lot/units. As of fiscal 2007, the controlling legislation and loan agreements were amended to allow the County to bill and collect annually for the tax and to remit collections

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annually to the State Treasurer, along with any earnings thereon.

When received by the State Treasurer, under terms of the agreements as amended at the beginning of fiscal 2007, funds are deposited into SVD accounts as follows:

Special Tax Fund: Money remitted by McCormick County is deposited in the Special Tax Fund until it is transferred to one of the other funds described below. The balance in this account at June 30, 2008 was \$2,080, all of which has been recognized as notes receivable interest income by the SVD.

Interest Fund: Money is transferred from the Special Tax Fund annually in January in the amount necessary to pay the interest on all outstanding notes on the next interest payment date.

Cumulative Sinking Fund: Any monies remaining after funding the Interest Fund are deposited in the Cumulative Sinking Fund from which they are applied to principal. The balance of this account at June 30, 2008 was \$835.

Unless redeemed earlier, principal is due 30 years from the date it was borrowed. As of February 1, 2006, in accordance with the Act to Amend Joint Resolution 210 of 1987, of the South Carolina General Assembly, dated May 25, 2006, the State Treasurer determines the interest rate to be paid for the prior year based on the previous year's variable interest paid on United States Treasury securities. The interest rate set on January 31, 2008 was 5.53%. Based on that rate, minimum debt service to maturity is as follows:

Fiscal Year	Principal	Interest	Payments
2009	\$ -	\$ 499,526	\$ 499,526
2010	-	499,526	499,526
2011	-	499,526	499,526
2012	-	499,526	499,526
2013	-	499,526	499,526
2014-2018	-	2,497,630	2,497,630
2019-2023	-	2,497,630	2,497,630
2024-2028	7,202,238	1,813,738	9,015,976
2029-2030	1,830,779	97,192	1,927,971
	<u>\$ 9,033,017</u>	<u>\$ 9,403,820</u>	<u>\$ 18,436,837</u>

4. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008, was as follows:

Note	Amount	Additions	Reductions	Ending Balance	Due Within One Year
January 2004	\$ 10,288,909	\$ -	\$ 1,255,892	\$ 9,033,017	-
Total	<u>\$ 10,288,909</u>	<u>\$ -</u>	<u>\$ 1,255,892</u>	<u>\$ 9,033,017</u>	<u>\$ -</u>

5. WORK IN PROGRESS

In 1992, the SVD began work to develop a golf resort and retirement community at Lake Russell near Calhoun Falls, South Carolina. The property includes some 2,750 acres owned by the SVD, leased by the SVD (see note 7) and leased from the U.S. Secretary of The Army Corps of Engineers (USACE) by the South Carolina Department of

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Parks, Recreation and Tourism (SCPRT).

In 1997, the SVD signed an agreement with a private developer to complete the project but the agreement was terminated in 1998 after contractors filed mechanics liens against the property exceeding \$5 million. The lead contractor subsequently satisfied the liens in exchange for a commitment by the SVD to pay the company the amount required to release the liens. From fiscal 2000 through the end of fiscal 2002, a contract to complete the project was pending with a second developer. The agreement was never closed, however, and the proposed private developer withdrew from the project in June 2002.

In October 2004, the SVD and US Land Investments, LLC, (US Land) signed a development agreement. Pursuant to terms of the agreement and with the approval of the State Budget & Control Board, the SVD sold 411.82 acres of land it owned fee simple to US Land. Also in accordance with the agreement, the SVD entered into sub-leases with US Land and SCPRT as well as related assignments for portions of leased land and certain facilities required for the project. (See note 7). In exchange for the land and the sub-leases, US Land executed a note and mortgage payable to the Fluor Enterprises, Inc., in the amount of \$5.4 million which fully satisfied the SVD's obligation to pay the contractor amounts required to release the 1998 mechanics liens.

In addition, terms of the agreement granted US Land an option to purchase the additional 445.79 acres of the SVD's fee simple land at \$1,500 per acre and to sub-lease additional land sub-leased by the SVD from SCPRT. The agreement also requires the SVD to negotiate with the USACE for additional land which US Land may purchase at the \$1,500 per acre price. The options expire in October 2014 at which time, US Land is to have completed the development.

The October 2004 development agreement also called for the SVD to make a \$350,000 infrastructure grant to Abbeville County and the Town of Calhoun Falls to provide road, water and sewer improvements for the development. Because the SVD did not have the funds to make the grant, the South Carolina Coordinating Council for Economic Development, a division of the South Carolina Department of Commerce (SCDOC), made the grant in April 2007, thus satisfying the SVD's obligation.

Management has established a valuation allowance for the land and associated capitalized development costs of \$1,250,231. As a result, the carrying value of the work in progress is \$1. This value is in accordance with management's expectation that it will realize no profit from the sale of the remaining property.

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Work in progress, net of valuation allowance	\$ 1	\$ -	\$ -	\$ 1
Land, net of valuation allowance	1	-	-	1
	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2</u>

7. OPERATING LEASES

The SVD has two prime leases with the USACE pursuant to which SVD leases approximately 1,800 acres of land under terms of a Lease to States for Public Park, Recreational and Forest Management Purposes. The first lease grants the SVD certain usage and development rights for a term of 99 years beginning July 5, 1994. Under this 99 year lease, SVD does not pay rent, but is required to maintain boat ramps located at the property. Cost of maintaining these ramps during fiscal 2008 was \$22,052, which the SVD paid to a third-party vendor.

The second lease, the Blue Hole Lease, is for a term of 50 years beginning November 12, 1997. As part of the

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June 30, 2008**

development agreement discussed in note 5, SVD subleased the premises under the Blue Hole Lease to US Land in October 2004, and US Land was to be responsible for maintaining the Blue Hole Recreation property. Under terms of an amendment to the sublease executed in September 2007, US Land made a partial assignment of its rights and obligations under the Blue Hole sublease to SCPRT, and the SVD agreed to pay SCPRT \$42,000 per year for two years to maintain the Blue Hole Recreation Area. The first payment due for fiscal 2008 was payable at year end with the second payment due in September 2008. In addition and pursuant to the September 2007 amendments, SCDOC has assigned to SCPRT for the purpose of long-term maintenance of the Blue Hole Recreation Area the SVD's right to collect the first \$540,000 of the \$668,685 proceeds which would result if US Land exercises its option as discussed in note 5 to purchase the SVD's remaining 445.82 fee simple acres. Should US Land not exercise the option until the second anniversary of the second \$42,000 payment, the agreement provides that SCPRT's share of the proceeds increases to \$582,000. Should US Land fail to exercise its option to purchase the additional land within two years of the second \$42,000 payment, the assignment will terminate and US Land will retain the obligation to maintain the Blue Hole Recreation Area under its sublease with the SVD. If US Land defaults on the project and specifically under the Blue Hole sublease, the SVD will retain the long-term maintenance obligation for the Blue Hole Recreation Area pursuant to its prime lease with USACE.

In accordance with US Land's proposed development plan, the SVD also subleased from the SCPRT the Calhoun Falls State Park Marina and assigned the sublease to US Land. In September 2007, the sublease was amended and a new assignment negotiated among US Land, SCPRT, and SVD. Under the agreements as amended, the Calhoun Falls State Park Marina was removed from the premises subject to the lease agreement and US Land retained the right to construct new public docks adjacent to SCPRT's leased land and gained the right to construct new public docks adjacent to SVD's leased land under the Blue Hole lease. Under terms of the sublease, as amended, US Land is required to make quarterly payments of \$9,540 to the SVD which the SVD is to pay to SCPRT. These payments escalate annually at a compounded interest rate of 6 percent until the end of the sublease. During fiscal 2008, the SVD received and remitted the first three quarterly payments totaling \$28,620, but as of year end, the fourth quarter payment was receivable from US Land. Management doubts that US Land will make the fourth quarter payment and so has not recorded a receivable

8. EASEMENT REMEDIATION DEPOSITS

As part of the development agreement discussed in note, 5, the USACE has granted certain drainage easements required for the development. In order to provide the developer with perpetual easements, the SVD entered into an agreement whereby the property owner's association in the development will maintain a reserve account that will provide funding for the SCDOC in the event the USACE requires remediation to any of the property associated with the easements. Under terms of the agreement, the developer has purchased a \$25,000 bond in the name of the property owners' association and will collect a fee of \$250 at closing of each of the lots to be sold. Those fees are to be transferred to a reserve account maintained by the SVD which is to be used to offset any future applicable costs. When deposits in the account reach \$25,000, the bond will be released. Through June 30, 2008, the SVD had received \$6,250 in storm water fees which are shown on the balance sheet under the caption "Escrow for easement remediation" and the bond requirement had been reduced to \$18,750.

During the year, the SVD received from the developer and paid to the USACE an \$8,000 easement rental fee and a \$1,400 in administrative fee during fiscal 2008.

9. RISK MANAGEMENT

The SVD is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, and errors and omissions. The SVD is covered for such risks under policies purchased by the SCDOC which pays insurance premiums to certain other State agencies to cover such risks which may occur in normal operations. These agencies promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. Management believes such coverage is sufficient to preclude any

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

significant uninsured losses for the covered risks. Settled claims did not exceed coverage for the past three years. The SCDOC and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the theft of, damage to, or destruction of assets, real property, contents, and other equipment, torts, and natural disasters. The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property and automobile liability. The IRF's rates are determined actuarially.

10. RELATED PARTY TRANSACTIONS

The SVD has significant transactions with the State of South Carolina. Services received at no cost from State agencies include check preparation and banking, investment and debt management functions from the State Treasurer and insurance coverage from the SCDOC (see notes 1 and 9). Also during 2008, SCDOC and State Treasurer's Office employees provided management, legal and accounting services at no cost to the SVD. In prior years, the SVD paid SCDOC for some of these services, and, as discussed in note 12, during the year SCDOC refunded \$8,403 of a fiscal 2006 payment.

As discussed in note 7, the SVD subleases certain property from the SCPRT and the SVD has agreed to certain payments to SCPRT in exchange for maintenance of the Blue Hole Recreation Area. As of June 30, 2008, \$42,000 was payable to SCPRT for this purpose.

Also, as discussed in note 3, the SVD has borrowed money from the Insurance Reserve Fund. At year end, the balance on the notes payable by the SVD to the IRF was \$9,033,017. Interest payable was \$208,137.

11. ECONOMIC DEPENDENCY

The SVD's only source of unrestricted revenue is interest income which it earns on unrestricted deposits. For the year ended June 30, 2008, such interest totaled \$5,768.

12. RESTATEMENT ADJUSTMENTS

During 2007, management determined that interest earned by the bond sinking and reserve funds discussed in note 3 had previously been incorrectly recorded as non-operating revenue and reduced net assets by \$3,186,086. During 2008, management determined that the prior restatement should also have included \$17,519 accrued interest on the applicable deposits. Also, during the year, management of SCDOC determined that it had overcharged the SVD \$8,403 for services in fiscal 2006 and refunded that amount. The amount should have been reported as receivable at the beginning of the year. Accordingly, beginning net assets were restated as follows:

Beginning net assets as originally stated	\$ 240,073
Correction of error -- remove accrued interest on bond sinking and reserve funds from inception to June 30, 2006	(17,519)
Correction of error -- properly record 2006 overpayment for personal services provided by SCDOC	8,403
Beginning net assets as restated	<u>\$ 230,957</u>

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
SUPPLEMENTARY SCHEDULE OF INFORMATION ON BUSINESS-TYPE ACTIVITIES REQUIRED
FOR THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES IN THE STATE COMPREHENSIVE
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2008**

	2008	2007	Net Change
Charges for services	\$ 521,592	\$ 606,339	\$ (84,747)
Operating grants and contributions	5,768	8,344	(2,576)
Capital grants and contributions	-	-	-
Less: expenses	(592,568)	(1,130,949)	538,381
Net program revenue (expense)	(65,208)	(516,266)	451,058
General revenues:			
Earnings on investments	-	-	-
Other general revenues	-	-	-
Interest income on notes receivable	-	-	-
Special/extraordinary items	-	-	-
Contributions to permanent and term endowments	-	-	-
Transfers:			
State appropriation	-	-	-
Other transfers in from state agencies/funds	-	-	-
Less: transfers out to state agencies/funds	-	-	-
Total general revenue and transfers	-	-	-
Change in net assets	(65,208)	(516,266)	451,058
Net assets – beginning	240,073	3,942,425	(3,702,352)
Restatement adjustments	(9,116)	(3,186,086)	(3,195,202)
Net assets – ending	\$ 165,749	\$ 240,073	\$ (6,446,496)

WALDA WILDMAN, LLC

CERTIFIED PUBLIC ACCOUNTANT

Synergy Business Park · Congaree Building · 121 Executive Center Drive · Suite 206
Columbia, South Carolina · 29210
Telephone 803.216.9800 · Fax 803.216.9498

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 15, 2008

Mr. Richard H. Gilbert, Jr., CPA
Interim State Auditor
Office of the State Auditor
State of South Carolina
Columbia, South Carolina

I have audited the financial statements of the Division of Savannah Valley Development of the South Carolina Department of Commerce (the SVD) as of and for the year ended June 30, 2008, and have issued my report thereon dated September 15, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the SVD's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SVD's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the SVD's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

I consider the deficiency described in the accompanying Auditor's Comments to be a significant deficiency in internal control over financial reporting. (Comment 2008-1.)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be

significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I consider the significant deficiency reported in Comment 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SVD's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The SVD's response to the findings identified in my audit is included in the accompanying Auditor's Comments. I did not audit the SVD's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, the South Carolina State Auditor, the South Carolina State Treasurer, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink that reads "Walda Wildman LLC". The signature is written in a cursive, flowing style.

WALDA WILDMAN, LLC
Certified Public Accountant

WALDA WILDMAN, LLC

CERTIFIED PUBLIC ACCOUNTANT

Synergy Business Park · Congaree Building · 121 Executive Center Drive · Suite 206
Columbia, South Carolina · 29210
Telephone 803.216.9800 · Fax 803.216.9498

AUDITOR'S COMMENTS

September 15, 2008

Mr. Richard H. Gilbert, Jr., CPA
Interim State Auditor
Office of the State Auditor
State of South Carolina
Columbia, South Carolina

Comment 2008-1 -- Design of Internal Control Doesn't Support Preparation of Financial Statements

One of several objectives of internal control is financial reporting. With respect to financial reporting, internal control must be designed to assure that employees are able to initiate, authorize, record, process and report financial data reliably in accordance with U. S. generally accepted accounting principles (GAAP) and that in the normal course of performing their assigned functions, they will prevent or detect financial statement misstatements on a timely basis.

I noted for a second year that internal control at the SVD does not include as an objective preparation of financial statements prepared in accordance with U. S. GAAP. Internal control at the SVD is designed only to insure that cash transactions are recorded and that cash balances per the general ledger are reconciled to cash balances per bank statements at the end of each month. Such a limited internal control objective does not support timely prevention or detection of financial statement misstatements. As a result, I proposed and management accepted adjusting entries to increase revenue accounts from \$65,198 to \$527,360, to increase expense accounts from \$57,596 to \$592,568 and to decrease asset accounts by almost \$3 million.

In addition, not only did SVD's internal control not prevent and/or detect errors in GAAP financial statements, it did not detect that SVD staff did not make the first of two contractually required \$42,000 payments to SCPRT (see note 7). During my fieldwork, I asked why I could not find either the payment or a payable recorded in the general ledger. After researching the issue, management determined that the payment had not been timely made and determined that a payable should be recorded.

Many of the SVD's transactions are non-routine in nature and are handled by either the South Carolina State Treasurer's Office or by the South Carolina Department of Commerce legal department. The SVD's internal control does not include procedures to ensure that those responsible for accounting know that transactions should occur, know that transactions did occur, and understand the transactions sufficiently to record, process and report them reliably in accordance with U. S. GAAP.

Management's Response to Comment 2008-1:

Management is aware of the internal control issues stated in Comment 2008-1 and will address the issues during the current fiscal year.

Walda Wildman LLC

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Certified Public Accountant

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CERTIFIED PUBLIC ACCOUNTANT

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STATUS OF PRIOR YEAR'S FINDINGS

September 15, 2008

Mr. Richard H. Gilbert, Jr., CPA
Interim State Auditor
Office of the State Auditor
State of South Carolina
Columbia, South Carolina

The status of findings for the year ended June 30, 2007, is as follows:

Comment 2007-1 – Design of Internal Control Doesn't Support Preparation of Financial Statements

I noted that internal control at the SVD does not include as an objective preparation of financial statements. Nothing has been done to address this finding and a similar comment was made this year (Comment 2008-1).

Walda Wildman LLC

WALDA WILDMAN, LLC
Certified Public Accountant